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The Quarterly Journal of the Rhodesian Economic Society

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and M. L. Rule.

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Articles

A Policy of Export Promotion

Contributors

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A POLICY FOR EXPORT PROMOTION*

MARK RULE

It is clear from the published information that the Rhodesian economy has, over recent years, experienced a period of unparalleled growth. Though it may well prove impossible to maintain the high level of expansion achieved in 1971, as high a rate as possible is essential to the well-being of the country and of its people and must, therefore, remain the objective of all those concerned with business and the general management of the economy.

The same published information makes it equally clear that one major threat to the maintenance of a high rate of expansion lies in the balance of payments where the strains imposed by rapid growth and particularly by the need for heavy expenditure on renewal and development of the infrastructure are resulting in a serious shortage of foreign currency.

It is fairly widely conceded that the process of import substitution has, broadly speaking, been carried as far as possible. Little relief to the balance of payments is, therefore, likely from this source. Relief must instead be sought on the income side of the balance.

Capital flows may serve to reduce the overall pressure, but, bearing in mind the limitations on the sources of foreign capital available to Rhodesia and the longer term drain of foreign currency involved in servicing that capital, the main relief must be sought in increased earnings from the country's exports, visible and invisible.

The country's earnings from this source are, by reason of the nature of its trade, considerably influenced by the level of international commodity prices. The foreign currency shortage may well for considerable periods be alleviated by an increase in those levels. Lasting relief and, with it, the removal of one main obstacle to rapid development depends, however, on an increase in the volume of exports.

A crude distinction is often drawn between those sectors of the economy which, lacking domestic markets, have to export and those which, enjoying a considerable and, for the present, highly protected domestic market, do not have to export in order to prosper. This distinction is a real one, but at the same time somewhat misleading.

An enterprising approach to export promotion would lead those sectors not forced to export to do so, with a corresponding expansion in their total output. That enterprising approach is, however, equally likely to lead to an expansion of production in sectors falling under the heading of those which must export to exist. The need for such an approach is therefore common to both these categories of protective enterprise and there seems little valid reason to discriminate between them in the application of measures designed to stimulate exports.

Considerable attention has been focused upon fiscal measures to stimulate exports, some such measures being already incorporated in tax legislation. The existing provisions in this respect are, however, open to criticism in that they

*This article was written prior to the 1972 budget, but I see no reason to change the views expressed in it. Specifically, the new system of fiscal incentives to export, though more direct than that which it has replaced, seems open to the criticism contained in the relevant part of this paper.

provide a reward for having exported rather than an immediate incentive to individual businessmen to embark on strenuous export development. Additionally they are necessarily so complex that their benefits are, in all probability, not immediately apparent, particularly to small businessmen who are therefore not influenced by them towards developing their export sales.

Various fresh fiscal incentives, more obvious and tangible in their effects, have been proposed. These seem most often to amount to a subsidy, overt or concealed, payable on exports.

In order to make any subvention of this nature significant to individual exporters while keeping its total cost within the financial resources which can be made available for this purpose, it would probably have to be confined to specified commodity groups, a possible line of division lying in the distinction already referred to between sectors having to export and those not forced to do so to exist. The latter, being taken to be in need of stimulation to export, would, of course, be the beneficiaries of the subvention.

For reasons already indicated, however, this distinction is dubious as a basis for the assessment of the benefits to be derived from the stimulation of exports. It could be contended with some justification that its use in determining those exports to receive some form of subsidy would merely serve to create distortions in the economy, favouring the production of goods whose export is possible only with a subsidy to the detriment of the production for export of those goods where the country's natural advantages are sufficient for them to find markets without support from the public funds.

A more serious objection to many of the proposals made in this respect lies, however, in the fact that subsidies to exports are internationally accepted as justifying retaliatory measures by the countries receiving the subsidised goods, retaliatory measures designed to protect their own producers against competition from subsidised products and taking the form of dumping or countervailing duties. There is, therefore, a real danger that if measures of this nature were applied in Rhodesia and were successful in stimulating an initially markedly greater volume of exports they would reasonably rapidly be nullified by the reaction of importing countries.

In any event there is a considerable volume of evidence to show that the main impediment to increase exports lies in the apathy, often compounded by ignorance, of individual business concerns. It is possibly more constructive to seek to remove this apathy by measures other than export subsidies than to use the public funds as a form of carrot to attract the business donkeys to a field of activity in which they should in any event be active.

The present export promotion service is, in practice, an integral part of the civil service and of the Ministry of Commerce and Industry. Though there is an advisory body with representatives from the private sector of the economy, this in turn advises the Minister. It does not itself recruit, employ or directly control the members of the civil service charged with the promotion of exports.

Businessmen rightly or wrongly believe that civil servants generally do not have the business experience necessary to promote exports of individual products. This militates against the effectiveness of the present system and is also, no doubt, one of the underlying reasons why the government servants concerned, if they could speak their minds openly, would probably complain of a lack of support by private businessmen for their own efforts in this field. The mutual confidence, a pre-requisite for success in this field, is seriously lacking.

It is for this reason that there seems a strong case for the creation of an export promotion service drawn very largely from the ranks of those with experience in private business. Whether or not such businessmen would be

more able in the field of export promotion than their counterparts in the government service is of less importance than the fact that they would probably enjoy a greater rapport with those running firms producing exportable products.

There is some measure of evidence in the Australian experience that, possibly for this simple reason, a trade promotion service staffed by recruits from the private sector thus transferred temporarily or permanently to the government service is more effective than the traditional type of organisation wholly within the permanent civil service.

To be effective, an organisation of this nature would require an operating staff both within and outside the country.

Those members of the organisation stationed outside the country would be responsible for finding export opportunities either on the request of private firms or, in many cases, in advance of such requests. It would then be the responsibility of the organisation at home to "sell" the opportunities to the private firms involved. Those within the country would be responsible for ensuring that export opportunities found by external representatives were followed up by the private producers concerned. Still more important, they would circulate within the business community, generating widespread enthusiasm for the development of exports. They would have to function as an export lobby.

Any such organisation would be best kept separate from the Government's external representatives dealing with both political and commercial policies, something handled, in relations with foreign governments, by the normal diplomatic missions of the Government. There would, of course, have to be close liaison between the two organisations and there is little doubt that a service concerned exclusively with export promotion could provide most useful advice to officials in matters affecting trading agreements, tariffs and commercial policy generally.

If, however, any such export promotion organisation were to be created, it would need a firm financial base. Without such a base it would necessarily be wholly dependent upon the public funds and could scarcely be business rather than civil service orientated. It would find it difficult to pay the sort of salaries necessary to attract men of the calibre required for success. It would not be able to finance those activities — market research and possible assistance to new exporters in respect of their first trips to potential markets — desirable for its successful operation.

Equally important, there is a danger that a service not directly paid for by its beneficiaries — a service akin to that currently provided by government — would be written off in the minds of the private business community as of little or no value. The whole concept rests, therefore, both for its creation and its probable subsequent success on the devising of a source of income distinct from payments passing through the normal government budget. Bearing in mind the strongly pressed claim of the private sector to a predominant role in the economy and to specific leadership or control of the export system, it would be not unreasonable to require that sector to pay the piper before calling the tune.

A possible means of achieving this end would be to place a minute levy on exports whose proceeds would go entirely to the operation of the export promotion service, that in turn being controlled by a board broadly representative of the business community. Whether such a levy should be imposed only on manufactures or on all exports, including those made by statutory marketing authorities, is a point which would require careful consideration. There is, however, little reason to believe that all exporters would not derive some benefit from the services of an organisation of this nature and it might, consequently, be justified for the levy to rest upon the broadest possible base,

namely all exports of goods.

There is, of course, some precedent for this type of communally financed and controlled organisation in the research levies existing in certain areas of agriculture and, more specifically related to export promotion, in the levy system underlying the finances of the Tobacco Export Promotion Council.

This proposal is in no way aimed at usurping the authority of government for the export promotion organisation concerned would have to be created by law, probably in the form of a statutory authority, and would hence fall within the ultimate authority of the appropriate Minister. He in turn would, in discussion with the private sector, have a considerable measure of influence over the composition of the controlling board. At the same time, however, this measure of ultimate government responsibility is not incompatible with the concept of a business-orientated body, in practice controlled by representatives of the private business community and representing the common effort of that community to overcome one of the main obstacles to the country's future development.

It is also inherent in these proposals that the service referred to should not engage directly in trade. It could not be a body buying and selling goods, but only one stimulating and supporting the marketing efforts of individual firms. Any other concept would give rise to insuperable problems of conflict of interest and would, without doubt, gravely impair the effectiveness of the export promotion service.

There must, however, remain a strong measure of doubt of whether certain businesses, otherwise capable of exporting, could, even given a service of this nature, be stimulated in practice to do so. The businesses concerned may well be too small to face the administrative and financial problems of the export trade. The risks and burdens may be simply too great for them ever to wish to engage on their own in selling abroad.

There is, therefore, some case for the creation of a trading organisation to handle the products of firms not wishing to sell alone. Such a body might well be modelled on the Japanese trading houses and would, obviously, fall entirely outside the scope of any arrangements under the immediate aegis of government.

It would not, however, be unreasonable to suggest that the public sector might give some initial assistance in the capitalisation of a trading body of this nature intended subsequently to operate on completely normal commercial terms. It is true that attempts made in the private sector to create a common marketing organisation of this nature have thus far not succeeded. A body, independently financed as a trading house and offering to buy goods on the doorstep of individual factories for subsequent resale abroad, might prove more successful and this possibility would, at least, seem worth fuller investigation.

Broadly speaking the purpose of this paper has been to focus attention not on fiscal measures providing a carrot to export, but on arrangements calculated to arouse the enthusiasm and support of the business community for the active and practical promotion of a greater volume of exports from the country. Though their adoption would, in respect of the export promotion service, involve a radical change in existing arrangements, the problem is so important to the future of the country that no proposals should be rejected on this score alone. It is, instead, desirable that all possible proposals should be aired and discussed by business and government in a search for a truly effective means of increasing exports and thus facilitating the maintenance of a high rate of economic growth.

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